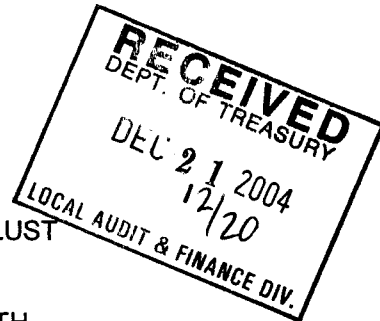


TOWNSHIP OF FRANKENLUST
Bay County, Michigan

FINANCIAL REPORT WITH
SUPPLEMENTARY INFORMATION

Year Ended June 30, 2004

09-1030



AUDITING PROCEDURES REPORT

Issue under P.A. 2 of 1968, as amended. Filing is mandatory.

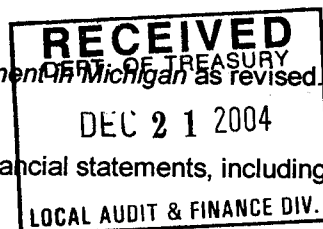
Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Township of Frankenlust	County Bay
Audit Date June 30, 2004	Opinion Date October 15, 2004	Date Accountant Report Submitted to State: October 15, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations



You must check the applicable box for each item below.

- | | |
|---|--|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during they year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) Campbell, Kusterer & Co., P.C.			
Street Address 512 N. Lincoln, Suite 100, P.O. Box 686		City Bay City	State MI
Accountant Signature Campbell, Kusterer & Co., P.C.		Zip 48707	

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

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CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

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TEL (989) 894-1040
FAX (989) 894-5494

INDEPENDENT AUDITOR'S REPORT

October 15, 2004

To the Township Board
Township of Frankenlust
Bay County, Michigan

We have audited the accompanying financial statements of the governmental activities, business type activities and each major fund of Township of Frankenlust, Bay County, Michigan as of and for the year ended June 30, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Township of Frankenlust's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, business type activities and each major fund of the Township of Frankenlust, Bay County, Michigan as of June 30, 2004, and the respective changes in financial position and cash flows where applicable, of these activities and funds for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Township has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*, as of July 1, 2003.

The Management's Discussion and Analysis and budgetary comparison information listed in the table of contents are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the Township's basic financial statements. The other supporting information described in the accompanying table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, in our opinion, it is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

The Management's Discussion and Analysis report of the Township of Frankenlust covers the Township's financial performance during the year ended June 30, 2004.

FINANCIAL HIGHLIGHTS

The Township's ending fund balances in all accounts is adequate for a Township of our size. The General Fund carries a balance equal to about 8 months of expenditures. State revenue sharing has dropped each of the last few years and is expected to drop again in 2005. The Board anticipates this problem and has not overextended their obligations.

OVERVIEW OF FINANCIAL STATEMENTS

This annual report consists of three parts, management's discussion and analysis, the basic financial statements and required supplementary information. The basic financial statements include two different kinds of statements that present different views of the Township and the notes to the financial statements.

The first two statements are entity-wide financial statements and provide both long and short-term information about our overall financial status. These statements present government and business type activities.

The remaining statements are fund financial statements, which focus on individual parts of the Township in more detail.

The notes to the financial statements explain some of the information in the statements and provide more detailed data.

Required supplementary information further explains and supports the financial statement information with budgetary comparisons.

ENTITY-WIDE FINANCIAL STATEMENTS

The entity-wide statements report information about the Township as a whole using accounting methods used by private companies. The statement of net assets includes all of the Township's assets and liabilities. The statement of activities records all of the current year revenues and expenses regardless of when received or paid.

The two entity-wide statements report net assets and how they have changed. Net assets are the difference between the entity's assets and liabilities and this is one method to measure the entity's financial health or position.

Over time increases/decreases in the entity's net assets are an indicator of whether financial position is improving or deteriorating.

To assess overall health of the entity you may also have to consider additional factors such as tax base changes, facility conditions and personnel changes.

FUND FINANCIAL STATEMENTS

The fund financial statements provide more detailed information about the Township's funds, focusing on significant (major) funds not the Township as a whole. Funds are used to account for specific activities or funding sources. Some funds are required by law or bond covenants. The Township Board also may create them. Funds are established to account for funding and spending of specific financial resources and to show proper expenditures of those resources.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

MANAGEMENT'S DISCUSSION AND ANALYSIS
For the year ended June 30, 2004

FUND FINANCIAL STATEMENTS (continued)

The Township has the following types of funds:

Governmental Funds: Some of the Township's activities are included in the governmental fund category. These funds are presented on the modified accrual basis, which is designed to show short-term financial information. You will note that the differences between the Township's entity-wide statements and the fund statements are disclosed in reconciling statements to explain the differences between them. The Township's governmental funds include the General Fund and the Special Revenue Funds.

Business Type Funds: The Township has a Water and Sewer Fund which includes the activities that were previously reported in the Debt Service Funds.

FINANCIAL ANALYSIS OF THE TOWNSHIP AS A WHOLE

The Township adopted its budget after presentation at the annual meeting held in June 2003. The Board amended the Township budget several times, in accordance with the requirements for Government accounting. The budget and all amendments were published in the Bay City Democrat.

FINANCIAL ANALYSIS OF THE TOWNSHIP'S FUNDS

The Township's General Fund pays for most of the Township's Governmental services. Township total expenditures exceeded total revenue for the fiscal year by \$223,956.21. The extra funds were available in the unappropriated beginning balance of \$566,811.85. This account has a remaining balance of \$342,855.64 at the end of the fiscal year.

CAPITAL ASSET AND LONG-TERM DEBT ACTIVITY

The Township is purchasing approximately 23 acres of land which includes a pond for creation of a new nature park. The purchase price is \$150,000.00 with \$50,000.00 paid immediately and the balance to be paid equally over each of the next two years.

All bond debt was paid as scheduled.

KNOWN FACTORS AFFECTING FUTURE OPERATIONS

Funds have been temporarily expended to accommodate preliminary costs for a new sewer. It is anticipated that a sewer will be built along parts of the Delta, Frankenlust, Kraenzlein, Amelith, Kloha and Mackinaw Roads. The Township will bond for this project through the Bay Area Authority. Until the bonding proceeds are available some of the costs have been paid from the General Fund. These costs are separated and will be reimbursed. A new sewer account will be established and all costs will be paid by the property owners benefited by the sewer.

CONTACTING THE TOWNSHIP'S MANAGEMENT

This financial report is intended to provide our citizens, taxpayers, customers and investors with a general overview of the Township's finances and to show the Township's accountability for the money it receives. If you have any questions or comments about this report please contact the Clerk's office.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF NET ASSETS
June 30, 2004

	<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>
ASSETS:			
CURRENT ASSETS:			
Cash in bank	507 863 46	1 242 169 96	1 750 033 42
Investments	249 943 25	32 92	249 976 17
Taxes receivable	21 511 37	-	21 511 37
Special assessments receivable	8 981 21	5 006 50	13 987 71
Total Current Assets	<u>788 299 29</u>	<u>1 247 209 38</u>	<u>2 035 508 67</u>
NONCURRENT ASSETS:			
Capital Assets	896 794 60	4 040 000 00	4 936 794 60
Less: Accumulated Depreciation	<u>(412 270 46)</u>	<u>(526 750 00)</u>	<u>(939 020 46)</u>
Total Noncurrent Assets	<u>484 524 14</u>	<u>3 513 250 00</u>	<u>3 997 774 14</u>
TOTAL ASSETS	<u>1 272 823 43</u>	<u>4 760 459 38</u>	<u>6 033 282 81</u>
LIABILITIES AND NET ASSETS:			
LIABILITIES:			
CURRENT LIABILITIES:			
Accounts payable	1 744 52	-	1 744 52
Total Current Liabilities	<u>1 744 52</u>	<u>-</u>	<u>1 744 52</u>
NONCURRENT LIABILITIES:			
Contracts payable	17 547 27	3 405 000 00	3 422 547 27
Total Noncurrent Liabilities	<u>17 547 27</u>	<u>3 405 000 00</u>	<u>3 422 547 27</u>
Total Liabilities	<u>19 291 79</u>	<u>3 405 000 00</u>	<u>3 424 291 79</u>
NET ASSETS:			
Invested in Capital Assets, Net of Related Debt	484 524 14	108 250 00	592 774 14
Restricted for debt service	-	568 044 85	568 044 85
Unrestricted	769 007 50	679 164 53	1 448 172 03
Total Net Assets	<u>1 253 531 64</u>	<u>1 355 459 38</u>	<u>2 608 991 02</u>
TOTAL LIABILITIES AND NET ASSETS	<u>1 272 823 43</u>	<u>4 760 459 38</u>	<u>6 033 282 81</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

GOVERNMENT-WIDE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

	<u>Expenses</u>	<u>Program Revenue</u> <u>Charges for Services</u>	<u>Governmental Activities</u> <u>Net (Expense)</u> <u>Revenue and</u> <u>Changes in Net</u> <u>Assets</u>
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Legislative	89 481 96	-	(89 481 96)
General government	168 847 72	65 773 14	(103 074 58)
Public safety	225 412 69	122 873 50	(102 539 19)
Public works	139 516 33	127 197 04	(12 319 29)
Recreation and culture	1 367 07	-	(1 367 07)
Total Governmental Activities	<u>624 625 77</u>	<u>315 843 68</u>	<u>(308 782 09)</u>
Business Type Activities:			
Water and sewer	<u>536 690 34</u>	<u>592 256 12</u>	-
Total Business Type Activities	<u>536 690 34</u>	<u>592 256 12</u>	-
Total Government	<u><u>1 161 316 11</u></u>	<u><u>908 099 80</u></u>	<u><u>(308 782 09)</u></u>
General Revenues:			
Property taxes			196 752 88
State revenue sharing			179 132 10
Interest			9 295 93
Miscellaneous			<u>11 122 64</u>
Total General Revenues			<u>396 303 55</u>
Change in net assets			87 521 46
Net assets, beginning of year			<u>1 166 010 18</u>
Net Assets, End of Year			<u><u>1 253 531 64</u></u>

The accompanying notes are an integral part of these financial statements.

<u>Business Type Activities</u>	<u>Total</u>
<u>Net (Expense) Revenue and Changes in Net Assets</u>	<u>Net (Expense) Revenue and Changes in Net Assets</u>
-	(89 481 96)
-	(103 074 58)
-	(102 539 19)
-	(12 319 29)
-	(1 367 07)
-	(308 782 09)
<u>55 565 78</u>	<u>55 565 78</u>
<u>55 565 78</u>	<u>55 565 78</u>
<u>55 565 78</u>	<u>(253 216 31)</u>
-	196 752 88
-	179 132 10
12 988 88	22 284 81
-	11 122 64
<u>12 988 88</u>	<u>409 292 43</u>
68 554 66	156 076 12
<u>1 286 904 72</u>	<u>2 452 914 90</u>
<u>1 355 459 38</u>	<u>2 608 991 02</u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

BALANCE SHEET – GOVERNMENTAL FUNDS
June 30, 2004

<u>Assets</u>	<u>General</u>	<u>Trash Collection</u>	<u>Other Funds</u>	<u>Total</u>
Cash in bank	252 427 98	101 178 31	154 257 17	507 863 46
Investments	76 381 50	106 192 36	67 369 39	249 943 25
Taxes receivable	15 252 85	-	6 258 52	21 511 37
Special assessments receivable	<u>537 83</u>	<u>8 443 38</u>	<u>-</u>	<u>8 981 21</u>
Total Assets	<u>344 600 16</u>	<u>215 814 05</u>	<u>227 885 08</u>	<u>788 299 29</u>
<u>Liabilities and Fund Equity</u>				
Liabilities:				
Accounts payable	<u>1 744 52</u>	<u>-</u>	<u>-</u>	<u>1 744 52</u>
Total liabilities	<u>1 744 52</u>	<u>-</u>	<u>-</u>	<u>1 744 52</u>
Fund equity:				
Fund balances:				
Unreserved:				
Undesignated	<u>342 855 64</u>	<u>215 814 05</u>	<u>227 885 08</u>	<u>786 554 77</u>
Total fund equity	<u>342 855 64</u>	<u>215 814 05</u>	<u>227 885 08</u>	<u>786 554 77</u>
Total Liabilities and Fund Equity	<u>344 600 16</u>	<u>215 814 05</u>	<u>227 885 08</u>	<u>788 299 29</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

RECONCILIATION OF BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
June 30, 2004

TOTAL FUND BALANCES – GOVERNMENTAL FUNDS	786 554 77
Amounts reported for governmental activities in the statement of net assets are different because –	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the governmental funds balance sheet:	
Capital assets at cost	896 794 60
Accumulated depreciation	(412 270 46)
Long-term debt liabilities are not due and payable in the current period and therefore are not reported in the government funds:	
Contract payable	<u>(17 547 27)</u>
TOTAL NET ASSETS – GOVERNMENTAL ACTIVITIES	<u><u>1 253 531 64</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
Year ended June 30, 2004

	<u>General</u>	<u>Trash Collection</u>	<u>Other Funds</u>	<u>Total</u>
Revenues:				
Property taxes	129 326 43	-	67 426 45	196 752 88
Licenses and permits	4 200 00	-	115 533 50	119 733 50
State revenue sharing	175 567 00	-	3 565 10	179 132 10
Charges for services:				
Property tax administration	42 290 49	-	-	42 290 49
Other	3 492 00	-	3 140 00	6 632 00
Interest	7 417 80	1 552 10	326 03	9 295 93
Rents	19 990 65	-	-	19 990 65
Special assessments	7 492 04	119 705 00	-	127 197 04
Miscellaneous	10 991 96	-	130 68	11 122 64
Total revenues	<u>400 768 37</u>	<u>121 257 10</u>	<u>190 121 76</u>	<u>712 147 23</u>
Expenditures:				
Legislative:				
Township Board	89 481 96	-	-	89 481 96
General government:				
Supervisor	21 716 21	-	-	21 716 21
Elections	488 92	-	-	488 92
Assessor	33 017 71	-	-	33 017 71
Clerk	28 195 67	-	-	28 195 67
Board of Review	760 00	-	-	760 00
Treasurer	30 744 56	-	-	30 744 56
Building and grounds	35 990 69	-	-	35 990 69
Public safety:				
Law enforcement	4 744 04	-	3 146 40	7 890 44
Fire protection	70 324 47	-	18 403 28	88 727 75
Protective inspection	-	-	82 221 22	82 221 22
Planning and zoning	22 330 78	-	-	22 330 78
Public works:				
Highways and streets	17 371 93	-	-	17 371 93
Sanitation	-	122 144 40	-	122 144 40
Culture and recreation:				
Recreation	1 367 07	-	-	1 367 07
Capital outlay	88 799 04	-	22 195 56	110 994 60
Debt service	179 391 53	-	-	179 391 53
Total expenditures	<u>624 724 58</u>	<u>122 144 40</u>	<u>125 966 46</u>	<u>872 835 44</u>
Excess (deficiency) of revenues over expenditures	(223 956 21)	(887 30)	64 155 30	(160 688 21)
Fund balances, July 1	<u>566 811 85</u>	<u>216 701 35</u>	<u>163 729 78</u>	<u>947 242 98</u>
Fund Balances, June 30	<u>342 855 64</u>	<u>215 814 05</u>	<u>227 885 08</u>	<u>786 554 77</u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

RECONCILIATION OF THE STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2004

NET CHANGES IN FUND BALANCES – TOTAL GOVERNMENTAL FUNDS (160 688 21)

Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report capital outlays as expenditures; in the Statement of Activities,
these costs are allocated over their estimated useful lives as depreciation

Depreciation Expense	(42 176 46)
Capital Outlay	110 994 60

Repayment of debt principal is an expenditure in the governmental funds, the
repayment does not have an effect in the statement of activities but does
reduce the debt balance in the statement of net assets.

Principal payments on long-term debt	<u>179 391 53</u>
--------------------------------------	-------------------

CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES	<u><u>87 521 46</u></u>
---	-------------------------

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

STATEMENT OF NET ASSETS – BUSINESS TYPE FUNDS
June 30, 2004

	<u>Water and Sewer Fund</u>
ASSETS:	
CURRENT ASSETS:	
Cash in bank	1 242 169 96
Investments	32 92
Special assessments receivable	<u>5 006 50</u>
Total Current Assets	<u>1 247 209 38</u>
NONCURRENT ASSETS:	
Capital Assets	4 040 000 00
Less: Accumulated Depreciation	<u>(526 750 00)</u>
Total Noncurrent Assets	<u>3 513 250 00</u>
TOTAL ASSETS	<u><u>4 760 459 38</u></u>
LIABILITIES AND NET ASSETS:	
LIABILITIES:	
CURRENT LIABILITIES:	
Accounts payable	<u>-</u>
Total Current Liabilities	<u>-</u>
NONCURRENT LIABILITIES:	
Contracts payable	<u>3 405 000 00</u>
Total Noncurrent Liabilities	<u>3 405 000 00</u>
Total Liabilities	<u>3 405 000 00</u>
NET ASSETS:	
Invested in Capital Assets, Net of Related Debt	108 250 00
Restricted for debt service	568 044 85
Unrestricted	<u>679 164 53</u>
Total Net Assets	<u>1 355 459 38</u>
TOTAL LIABILITIES AND NET ASSETS	<u><u>4 760 459 38</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
BUSINESS TYPE FUNDS
Year ended June 30, 2004

	<u>Water and Sewer Fund</u>
OPERATING REVENUES:	
Charges for Services:	
Water and sewer charges	514 664 04
Special assessments	<u>77 592 08</u>
Total Operating Revenues	<u>592 256 12</u>
OPERATING EXPENSES:	
Water and sewer contracted services	257 694 09
Depreciation	<u>101 000 00</u>
Total Operating Expenses	<u>358 694 09</u>
Operating Income	<u>233 562 03</u>
NONOPERATING REVENUES (EXPENSES):	
Interest income	12 988 88
Interest expense	<u>(177 996 25)</u>
Total Nonoperating Expenses	<u>(165 007 37)</u>
Change in net assets	68 554 66
Net assets, beginning of year	<u>1 286 904 72</u>
Net Assets, End of Year	<u><u>1 355 459 38</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

STATEMENT OF CASH FLOWS – BUSINESS TYPE FUNDS
Year ended June 30, 2004

	<u>Water and Sewer Fund</u>
CASH FLOWS FROM OPERATING ACTIVITIES:	
Cash received from customers	592 492 17
Cash payments to employees for services	<u>(257 694 09)</u>
Net cash provided (used) by operating activities	<u>334 798 08</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:	
Principal on contracts payable	(165 000 00)
Interest on contracts payable	<u>(177 996 25)</u>
Net cash provided (used) by capital and related financing activities	<u>(342 996 25)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:	
Interest on investments	<u>12 988 88</u>
Net increase (decrease) in cash	4 790 71
Cash beginning of year	<u>1 237 412 17</u>
Cash End of Year	<u><u>1 242 202 88</u></u>
RECONCILIATION OF INCOME (LOSS) FROM OPERATIONS TO NET CASH PROVIDED BY OPERATING ACTIVITIES:	
Income (loss) from operations	233 562 03
Adjustments to reconcile income (loss) from operations to net cash provided (used) by operating activities:	
Depreciation	101 000 00
(Increase) decrease in receivables	<u>236 05</u>
Net Cash Provided (Used) in Operating Activities	<u><u>334 798 08</u></u>

The accompanying notes are an integral part of these financial statements.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies

The accounting policies of the Township of Frankenlust, Bay County, Michigan, conform to generally accepted accounting principles as applicable to governmental units.

Reporting Entity

The financial statements of the Township contain all the Township funds that are controlled by or dependent on the Township's executive or legislative branches.

The reporting entity is the Township of Frankenlust. The Township is governed by an elected Township Board. As required by generally accepted accounting principles, these financial statements present the Township as the primary government.

Government-Wide and Fund Financial Statements

The government-wide financial statements, (the Statement of Net Assets and the Statement of Changes in Net Assets) report information on all of the non-fiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function. Taxes, intergovernmental payments and other items not properly included among program revenues are reported as general revenue.

Major individual governmental and business type funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, restricted resources are applied first.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Joint Venture

The Township of Frankenlust along with the Township of Pinconning and the Charter Township of Williams formed the Bay Area Utilities Authority in 1998. On August 24, 1999, the Authority issued \$3,170,000.00 of bonds for the benefit of the Frankenlust Township Water and Sewer System. The financial activity of the Authority is as follows:

As of 6/30/04

Assets:	
Contract Receivable from Township of Frankenlust	
Total Assets	<u>2 655 000 00</u> <u>2 655 000 00</u>
Liabilities:	
Bonds Payable	
Total Liabilities	<u>2 655 000 00</u> <u>2 655 000 00</u>
Equity	
Total Liabilities and Equity	<u>-</u> <u>2 655 000 00</u>

For the Year Ended 6/30/04

Receipts:	
Amounts received from Township of Frankenlust	
	<u>281 250 00</u>
Expenditures:	
Bond principal	
Bond interest	140 000 00
Bond fees	140 500 00
Total Expenditures	<u>750 00</u> <u>281 250 00</u>
Excess of Receipts Over Expenditures	<u>-</u>

Governmental Funds

General Fund

This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the local unit. Revenues are derived primarily from property taxes, state and federal distributions, grants, and other intergovernmental revenues.

Special Revenue Funds

These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Fiduciary Fund

The Current Tax Collection Fund is used to account for assets held as an agent for others.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Proprietary Funds

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Water and Sewer enterprise fund are charges to customers for services. The enterprise fund also recognizes as operating revenues the tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for the enterprise fund include the cost of services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

Assets, Liabilities and Net Assets or Equity

Bank deposits and investments – Cash and cash equivalent investments include cash on hand, demand deposits, certificates of deposit and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

Receivables

Receivables have been recognized for all significant amounts due to the Township. Allowances for uncollectible accounts have not been provided for in that collection is not considered doubtful and any uncollected amount would be immaterial.

Inventories

Inventories of supplies are considered to be immaterial and are not recorded.

Property Taxes

Property taxes and other revenue that are both measurable and available for use to finance operations are recorded as revenue when earned.

Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the county tax rolls. The Township 2003 tax roll millage rate was 1.8841 mills, and the taxable value was \$105,260,573.00.

Encumbrances

Encumbrances involving the current recognition of purchase orders, contracts and other commitments for future expenditures are not recorded.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

Capital assets are defined by the Township as assets with an initial cost of more than \$5,000.00 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

Buildings, additions and improvements	50 years
Furniture and equipment	3-20 years

Compensated Absences (Vacation and Sick Leave)

Township employees are not allowed to accumulate vacation and sick pay and therefore no accumulated amount is recorded in the financial statements.

Post-employment Benefits

The Township provides no post-employment benefits to past employees.

Fund Equity

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Accounting Change

Effective July 1, 2003, the Township implemented the provisions of Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments* (GASB No. 34). Changes to the Township's financial statements as a result of GASB No. 34 are as follows:

A Management's Discussion and Analysis (MD&A) section providing analysis of the Township's overall financial position and results of operations has been included.

Government-wide financial statements (Statement of Net Assets and Statement of Activities) prepared using the full accrual accounting for all the Township's activities have been provided.

Capital assets in the governmental activities column of the Statement of Net Assets include net assets totaling \$484,524.14.

Creation of a Water and Sewer Fund which includes the activities that were previously recorded in the Debt Service Funds.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 2 – Budgets and Budgetary Accounting

The following procedures are followed in establishing the budgetary data reflected in these general purpose financial statements:

1. Prior to the beginning of the fiscal year, the proposed budget for each budgetary fund is submitted to the Township Board for consideration.
2. The proposed budgets include expenditures as well as the methods of financing them.
3. Public hearings are held to obtain taxpayer comments.
4. The budgets are adopted at the activity level by a majority vote of the Township Board.
5. The budgets are adopted on the modified accrual basis of accounting.
6. The originally adopted budgets can be amended during the year only by a majority vote of the Township Board.
7. The adopted budgets are used as a management control device during the year for all budgetary funds.
8. Budget appropriations lapse at the end of each fiscal year.
9. The budgeted amounts shown in these general purpose financial statements are the originally adopted budgets with all amendments that were approved by the Township Board during the fiscal year.

Note 3 – Deposits and Investments

Michigan Compiled Laws, Section 129.91, authorizes the Township to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or federal agency obligation repurchase agreements; banker's acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date purchase; obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Township Board has designated seven banks for the deposit of Township funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in all investments authorized by state law as listed above.

The Township's deposits and investments are in accordance with statutory authority.

The Governmental Accounting Standards Board Statement No. 3, risk disclosures for the cash deposits are as follows:

Total Deposits

Carrying
Amounts

1,750,033.42

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 3 – Deposits and Investments (continued)

Amounts in the bank balances are without considering deposits in transit or uncleared checks.

	<u>Bank Balances</u>
Insured (FDIC)	512 454 53
Uninsured and Uncollateralized	<u>1 243 620 66</u>
Total Deposits	<u>1 756 075 19</u>

The Township's investments are categorized below to give an indication of the level of risk assumed by the Township. Risk category 1 includes those investments that meet any one of the following criteria: insured, registered, or held by the Township or its agent. Risk categories 2 and 3 include investments that are neither insured nor registered. Category 2 includes investments that are held by the counterparty's trust department (or agent) in the Township's name. Category 3 includes investments held by the counterparty or the counterparty's trust department (or agent) but not in the Township's name.

The GASB Statement No. 3 risk disclosures for the Township's investments are categorized as follows:

<u>Investment Type</u>	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>Carrying Amount</u>
Risk-Categorized: Operating Funds	-	-	-	-
Total Risk-Categorized Investments	<u>-</u>	<u>-</u>	<u>-</u>	-
Nonrisk-Categorized: Financial Institution Pooled Funds				<u>249 976 17</u>
Total Investments				<u>249 976 17</u>

The financial institution pooled funds are not categorized because they are not evidenced by securities that exist in physical or book entry form. Management believes that the investments in the funds comply with the investment authority noted above.

Note 4 – Interfund Receivables and Payables

The amounts of interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
General	<u>28 71</u>	Current Tax Collection	<u>28 71</u>
Total	<u>28 71</u>	Total	<u>28 71</u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 5 – Capital Assets

Capital asset activity of the Township's Governmental and Business Type activities for the current year was as follows:

	Balance 7/1/03	Additions	Deletions	Balance 6/30/04
<u>Governmental Activities:</u>				
Land	30 000 00	50 000 00	-	80 000 00
Buildings	312 500 00	-	-	312 500 00
Equipment	443 300 00	60 994 60	-	504 294 60
Total	785 800 00	110 994 60	-	896 794 60
Accumulated Depreciation	(370 094 00)	(42 176 46)	-	(412 270 46)
Net Governmental Capital Assets	<u>415 706 00</u>	<u>68 818 14</u>	<u>-</u>	<u>484 524 14</u>
<u>Business Type Activities:</u>				
Water and Sewer System	4 040 000 00	-	-	4 040 000 00
Accumulated Depreciation	(425 750 00)	(101 000 00)	-	(526 750 00)
Net Business Type Capital Assets	<u>3 614 250 00</u>	<u>(101 000 00)</u>	<u>-</u>	<u>3 513 250 00</u>

Note 6 – Deferred Compensation Plan

The Township does not have a deferred compensation plan.

Note 7 – Pension Plan

The Township has a defined contribution pension plan covering all Township Board members. The Township contributes a percentage of each employee's wages to the plan. Pension expense for the fiscal year ended June 30, 2004, was \$12,722.79.

Note 8 – Changes in Long-Term Debt

A summary of changes in long-term debt follows:

	Balance 7/1/03	Additions	Deductions	Balance 6/30/04
Contracts payable – roads	137 461 80	59 477 00	179 391 53	17 547 27
Contract payable – water and sewer 1999 refunding	775 000 00	-	25 000 00	750 000 00
Contract payable water and Sewer 1999 No. 1	2 795 000 00	-	140 000 00	2 655 000 00
Total	<u>3 707 461 80</u>	<u>59 477 00</u>	<u>344 391 53</u>	<u>3 422 547 27</u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 9 – Contracts Payable – Roads

The Township of Frankenlust entered into several contracts with the Bay County Road Commission to finance various road improvements. The contracts require annual payments in varying amounts. As of June 30, 2004, the principal balance outstanding on these contracts payable is \$17,547.27.

Note 10 – 1999 Water and Sewer Refunding Bonds Contract Payable

On February 9, 1999, the Michigan Municipal Bond Authority issued \$870,000.00 of bonds which together with \$132,389.00 contributed by the County of Bay, was issued for the purpose of refunding the existing water bonds in the amount of \$440,000.00 and sewer bonds in the amount of \$510,000.00. The Township of Frankenlust has entered into a contract with the Michigan Municipal Bond Authority whereby the Township has agreed to make payments to the Authority in amounts sufficient to retire the bond principal and interest as they come due.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
11/1/04	3.90%	25 000 00
11/1/05	4.05	30 000 00
11/1/06	4.15	30 000 00
11/1/07	4.25	30 000 00
11/1/08	4.30	30 000 00
11/1/09	4.40	35 000 00
11/1/10	4.50	35 000 00
11/1/11	4.60	35 000 00
11/1/12	4.70	40 000 00
11/1/13	5.00	40 000 00
11/1/14	5.00	45 000 00
11/1/15	5.00	45 000 00
11/1/16	5.20	50 000 00
11/1/17	5.20	50 000 00
11/1/18	5.20	55 000 00
11/1/19	5.20	55 000 00
11/1/20	5.20	60 000 00
11/1/21	5.20	60 000 00
Total		<u>750 000 00</u>

Note 11 – 1999 Water and Sewer System No. 1 Bonds Contract Payable

On August 24, 1999, the Bay Area Utilities Authority issued \$3,170,000.00 of bonds for the purpose of refunding the existing sewer bonds in the amount of \$2,750,000.00 and for acquiring and constructing certain improvements to the existing water and sewer system. The Township of Frankenlust has entered into a contract with the Bay Area Utilities Authority whereby the Township has agreed to make payments to the Authority in amounts sufficient to retire the bond principal and interest as they come due.

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
5/1/05	4.70%	165 000 00
5/1/06	4.80	185 000 00

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

NOTES TO FINANCIAL STATEMENTS
June 30, 2004

Note 11 – 1999 Water and Sewer System No. 1 Bonds Contract Payable (continued)

<u>Due Date</u>	<u>Interest Rate</u>	<u>Principal Amount</u>
5/1/07	4.90%	340 000 00
5/1/08	5.00	355 000 00
5/1/09	5.00	375 000 00
5/1/10	5.10	390 000 00
5/1/11	5.20	410 000 00
5/1/12	5.30	<u>435 000 00</u>
Total		<u>2 655 000 00</u>

Note 12 – Contingent Liability

On July 1, 1978, the Bay County West Side Regional Sewage Disposal System General Obligation Bonds were issued. The bond principal and interest payments are being paid from amounts received from the system's users. As of June 30, 2004, the Township of Frankenlust is responsible for \$576,888.00 which is 7.396% of the outstanding bond principal.

Note 13 – Risk Management

The Township is exposed to various risks of loss related to property loss, torts, errors, omissions, and employee injuries (workers' compensation). The Township has purchased commercial insurance for property loss, torts and workers' compensation claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 14 – Building Permits

As of June 30, 2004, the Township had building permit revenues of \$115,533.50 and building permit expenses of \$82,321.78.

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND
Year ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Property taxes	121 000 00	121 000 00	129 326 43	8 326 43
Licenses and permits	7 100 00	7 100 00	4 200 00	(2 900 00)
State revenue sharing	175 000 00	175 000 00	175 567 00	567 00
Charges for services:				
Property tax administration	43 000 00	43 000 00	42 290 49	(709 51)
Other	5 000 00	5 000 00	3 492 00	(1 508 00)
Interest	18 000 00	18 000 00	7 417 80	(10 582 20)
Rents	20 000 00	20 000 00	19 990 65	(9 35)
Special assessments	14 200 00	14 200 00	7 492 04	(6 707 96)
Miscellaneous	24 000 00	24 000 00	10 991 96	(13 008 04)
Total revenues	<u>427 300 00</u>	<u>427 300 00</u>	<u>400 768 37</u>	<u>(26 531 63)</u>
Expenditures:				
Legislative:				
Township Board	90 000 00	106 958 00	89 481 96	(17 476 04)
General government:				
Supervisor	22 700 00	23 080 00	21 716 21	(1 363 79)
Elections	6 000 00	6 000 00	488 92	(5 511 08)
Assessor	44 800 00	43 800 00	33 017 71	(10 782 29)
Clerk	25 600 00	28 980 00	28 195 67	(784 33)
Board of Review	1 600 00	1 600 00	760 00	(840 00)
Treasurer	32 500 00	32 880 00	30 744 56	(2 135 44)
Building and grounds	84 600 00	106 800 00	35 990 69	(70 809 31)
Public safety:				
Law enforcement	7 000 00	7 000 00	4 744 04	(2 255 96)
Fire protection	100 700 00	100 700 00	70 324 47	(30 375 53)
Planning and zoning	33 700 00	33 700 00	22 330 78	(11 369 22)
Public works:				
Highways and streets	40 800 00	40 800 00	17 371 93	(23 428 07)
Culture and recreation:				
Recreation	15 000 00	4 000 00	1 367 07	(2 632 93)
Capital outlay	90 000 00	90 000 00	88 799 04	(1 200 96)
Debt service	214 300 00	183 002 00	179 391 53	(3 610 47)
Total expenditures	<u>809 300 00</u>	<u>809 300 00</u>	<u>624 724 58</u>	<u>(184 575 42)</u>
Excess (deficiency) of revenues over expenditures	(382 000 00)	(382 000 00)	(223 956 21)	158 043 79
Fund balance, July 1	<u>400 000 00</u>	<u>400 000 00</u>	<u>566 811 85</u>	<u>166 811 85</u>
Fund Balance, June 30	<u>18 000 00</u>	<u>18 000 00</u>	<u>342 855 64</u>	<u>324 855 64</u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

BUDGETARY COMPARISON SCHEDULE – TRASH COLLECTION FUND
Year ended June 30, 2004

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Over (Under)</u>
Revenues:				
Interest	-	-	1 552 10	1 552 10
Special assessments	<u>120 000 00</u>	<u>120 000 00</u>	<u>119 705 00</u>	<u>(295 00)</u>
Total revenues	<u>120 000 00</u>	<u>120 000 00</u>	<u>121 257 10</u>	<u>1 257 10</u>
Expenditures:				
Public works:				
Sanitation	<u>130 000 00</u>	<u>130 000 00</u>	<u>122 144 40</u>	<u>(7 855 60)</u>
Total expenditures	<u>130 000 00</u>	<u>130 000 00</u>	<u>122 144 40</u>	<u>(7 855 60)</u>
Excess (deficiency) of revenues over expenditures	(10 000 00)	(10 000 00)	(887 30)	9 112 70
Fund balance, July 1	<u>20 000 00</u>	<u>20 000 00</u>	<u>216 701 35</u>	<u>196 701 35</u>
Fund Balance, June 30	<u><u>10 000 00</u></u>	<u><u>10 000 00</u></u>	<u><u>215 814 05</u></u>	<u><u>205 814 05</u></u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2004

Township Board:	
Wages	
Payroll tax	8 058 00
Professional services	5 753 63
Membership and dues	37 449 29
Education and training	2 042 44
Printing and publishing	689 67
Insurance	2 870 88
Life insurance	15 865 46
Pension	411 80
Miscellaneous	12 722 79
	<u>3 618 00</u>
Supervisor:	<u>89 481 96</u>
Salary	
Supplies	19 380 00
Transportation	134 10
Education and training	579 32
	<u>1 622 79</u>
Elections:	<u>21 716 21</u>
Supplies	
	<u>488 92</u>
Assessor:	
Wages	
Contracted service	4 500 00
Supplies	25 433 19
Land division fees	2 432 34
	<u>652 18</u>
Clerk:	<u>33 017 71</u>
Salary	
Salary – deputy	19 380 00
Supplies	2 000 04
Transportation	655 01
Education and training	515 92
Miscellaneous	1 046 67
	<u>4 598 03</u>
Board of Review:	<u>28 195 67</u>
Wages	
	<u>760 00</u>
Treasurer:	
Salary	
Salary – deputy	19 380 00
Supplies	4 500 00
Education and training	5 441 27
Transportation	662 93
	<u>760 36</u>
Building and grounds:	<u>30 744 56</u>
Wages	
Supplies	9 744 40
Utilities	5 376 65
Telephone	6 359 79
Bulk water	2 554 61
Mowing	3 537 20
Miscellaneous	5 850 00
	<u>2 568 04</u>
	<u>35 990 69</u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

GENERAL FUND EXPENDITURES BY DETAILED ACCOUNT
Year ended June 30, 2004

Law enforcement:	
Contracted services	<u>4 744 04</u>
Fire protection:	
Wages	
Supplies	38 774 25
Insurance	4 654 11
Education and training	17 024 25
Transportation	2 552 53
Gasoline	270 72
Repairs and maintenance	871 86
	<u>6 176 75</u>
Planning and zoning:	<u>70 324 47</u>
Wages	
Education and training	10 840 00
Professional services	40 00
Miscellaneous	10 823 75
	<u>627 03</u>
Highways and streets:	<u>22 330 78</u>
Repairs and maintenance	
Drains	1 237 51
Weed control	1 042 58
Street lights	5 345 00
Brook storm sewer	8 973 32
	<u>773 52</u>
Recreation:	<u>17 371 93</u>
Supplies	
	<u>1 367 07</u>
Capital outlay	<u>88 799 04</u>
Debt service	<u>179 391 53</u>
Total Expenditures	<u><u>624 724 58</u></u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

COMBINING BALANCE SHEET – ALL SPECIAL REVENUE FUNDS

June 30, 2004

	<u>Historical</u>	<u>Fire Equipment</u>	<u>Liquor</u>	<u>Trash Collection</u>	<u>Emergency Service</u>
<u>Assets</u>					
Cash in bank	5 353 21	-	-	101 178 31	3 714 86
Investments	-	65 147 17	2 222 22	106 192 36	-
Taxes receivable	-	6 258 52	-	-	-
Special assessments receivable	-	-	-	8 443 38	-
Total Assets	<u>5 353 21</u>	<u>71 405 69</u>	<u>2 222 22</u>	<u>215 814 05</u>	<u>3 714 86</u>
<u>Liabilities and Fund Balances</u>					
Liabilities	-	-	-	-	-
Total liabilities	-	-	-	-	-
Fund balances:					
Unreserved:					
Undesignated	5 353 21	71 405 69	2 222 22	215 814 05	3 714 86
Total fund balances	5 353 21	71 405 69	2 222 22	215 814 05	3 714 86
Total Liabilities and Fund Balances	<u>5 353 21</u>	<u>71 405 69</u>	<u>2 222 22</u>	<u>215 814 05</u>	<u>3 714 86</u>

<u>Building Department</u>	<u>Total</u>
145 189 10	255 435 48
-	173 561 75
-	6 258 52
-	8 443 38
<u>145 189 10</u>	<u>443 699 13</u>

-	-
-	-

<u>145 189 10</u>	<u>443 699 13</u>
<u>145 189 10</u>	<u>443 699 13</u>
<u>145 189 10</u>	<u>443 699 13</u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - ALL SPECIAL REVENUE FUNDS
Year ended June 30, 2004

	<u>Historical</u>	<u>Fire Equipment</u>	<u>Liquor</u>	<u>Trash Collection</u>	<u>Emergency Service</u>
Revenues:					
Property taxes	-	67 426 45	-	-	-
Licenses and permits	-	-	-	-	-
State revenue sharing	-	-	3 565 10	-	-
Charges for services	-	-	-	-	-
Interest	50 34	223 58	7 69	1 552 10	3 140 00
Special assessments	-	-	-	119 705 00	44 42
Miscellaneous	-	130 68	-	-	-
Total revenues	<u>50 34</u>	<u>67 780 71</u>	<u>3 572 79</u>	<u>121 257 10</u>	<u>3 184 42</u>
Expenditures:					
Public safety:					
Law enforcement	-	-	3 146 40	-	-
Fire protection	-	13 706 33	-	-	-
Protective inspection	-	-	-	-	4 696 95
Public works:					
Sanitation	-	-	-	-	-
Capital outlay	-	9 695 00	-	122 144 40	-
Total expenditures	<u>-</u>	<u>23 401 33</u>	<u>3 146 40</u>	<u>122 144 40</u>	<u>12 400 00</u>
Excess (deficiency) of revenues over expenditures	50 34	44 379 38	426 39	(887 30)	(13 912 53)
Fund balances, July 1	<u>5 302 87</u>	<u>27 026 31</u>	<u>1 795 83</u>	<u>216 701 35</u>	<u>17 627 39</u>
Fund Balances, June 30	<u>5 353 21</u>	<u>71 405 69</u>	<u>2 222 22</u>	<u>215 814 05</u>	<u>3 714 86</u>

<u>Building Department</u>	<u>Total</u>
-	67 426 45
115 533 50	115 533 50
-	3 565 10
-	3 140 00
-	1 878 13
-	119 705 00
-	130 68
<u>115 533 50</u>	<u>311 378 86</u>

-	3 146 40
-	18 403 28
82 221 22	82 221 22
-	122 144 40
<u>100 56</u>	<u>22 195 56</u>
<u>82 321 78</u>	<u>248 110 86</u>

33 211 72	63 268 00
<u>111 977 38</u>	<u>380 431 13</u>
<u>145 189 10</u>	<u>443 699 13</u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
Year ended June 30, 2004

	<u>Balance</u> <u>7/1/03</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance</u> <u>6/30/04</u>
<u>Assets</u>				
Cash in bank and investments	<u>8 65</u>	<u>3 210 130 53</u>	<u>3 210 110 47</u>	<u>28 71</u>
Total Assets	<u><u>8 65</u></u>	<u><u>3 210 130 53</u></u>	<u><u>3 210 110 47</u></u>	<u><u>28 71</u></u>
<u>Liabilities</u>				
Due to other funds	8 65	442 273 24	442 253 18	28 71
Due to others	<u>-</u>	<u>2 767 857 29</u>	<u>2 767 857 29</u>	<u>-</u>
Total Liabilities	<u><u>8 65</u></u>	<u><u>3 210 130 53</u></u>	<u><u>3 210 110 47</u></u>	<u><u>28 71</u></u>

TOWNSHIP OF FRANKENLUST
Bay County, Michigan

CURRENT TAX COLLECTION FUND
STATEMENT OF CASH RECEIPTS AND DISBURSEMENTS
Year ended June 30, 2004

Cash in bank – beginning of year	<u>8 65</u>
Cash receipts:	
Property taxes and special assessments	3 176 945 90
Property tax administration fees	30 886 75
Animal licenses	843 00
Interest	<u>1 454 88</u>
Total cash receipts	<u>3 210 130 53</u>
Total beginning balance and cash receipts	<u>3 210 139 18</u>
Cash disbursements:	
Township General Fund	180 305 99
Township Fire Equipment Fund	66 628 67
Township Trash Fund	117 490 39
Township Water Debt Service Fund	10 731 00
Township Sewer Debt Service 1 Fund	47 577 53
Township Sewer Debt Service 2 Fund	19 519 60
Bay Metro Transit Authority	71 766 28
Bay County	1 476 331 60
Bay Arenac Intermediate School District	461 991 93
Saginaw Intermediate School District	9 597 20
Bay City School District	449 176 90
Freeland Community Schools	37 356 80
Delta College	248 259 54
Refunds	<u>13 377 04</u>
Total cash disbursements	<u>3 210 110 47</u>
Cash in Bank – End of Year	<u><u>28 71</u></u>

CAMPBELL, KUSTERER & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MARK J. CAMPBELL, CPA
KENNETH P. KUSTERER, CPA

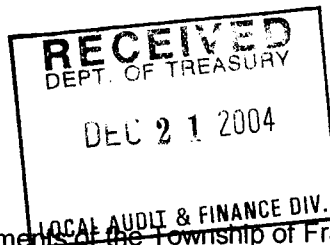
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BAY CITY, MICHIGAN 48707

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AUDIT COMMUNICATION AND REPORT OF COMMENTS AND RECOMMENDATIONS

October 15, 2004

To the Township Board
Township of Frankenlust
Bay County, Michigan



We have audited the financial statements of the Township of Frankenlust for the year ended June 30, 2004. As required by auditing standards generally accepted in the United States, the independent auditor is required to make several communications to the governing body having oversight responsibility for the audit. The purpose of this communication is to provide you with additional information regarding the scope and results of our audit that may assist you with your oversight responsibilities of the financial reporting process for which management is responsible.

AUDITOR'S RESPONSIBILITY UNDER AUDITING STANDARDS GENERALLY ACCEPTED IN THE UNITED STATES

We conducted our audit of the financial statements of the Township of Frankenlust in accordance with auditing standards generally accepted in the United States. The following paragraph explains our responsibilities under those standards.

Management has the responsibility for adopting sound accounting policies, for maintaining an adequate and effective system of accounts, for the safeguarding of assets, and for devising an internal control structure that will, among other things, help assure the proper recording of transactions. The transactions that should be reflected in the accounts and in the financial statements are matters within the direct knowledge and control of management. Our knowledge of such transactions is limited to that acquired through our audit. Accordingly, the fairness of representations made through the financial statements is an implicit and integral part of management's accounts and records. However, our responsibility for the financial statements is confined to the expression of an opinion on them. The financial statements remain the responsibility of management.

The concept of materiality is inherent in the work of an independent auditor. An auditor places greater emphasis on those items that have, on a relative basis, more importance to the financial statements and greater possibilities of material error than those items of lesser importance or those in which the possibility of material error is remote.

For this purpose, materiality has been defined as "the magnitude of an omission or misstatement of accounting information that, in light of surrounding circumstances, makes it probable that the judgment of a reasonable person relying on the information would have been changed or influenced by the omission or misstatement."

An independent auditor's objective in an audit is to obtain sufficient competent evidential matter to provide a reasonable basis for forming an opinion on the financial statements. In doing so, the auditor must work within economic limits; the opinion, to be economically useful, must be formed within a reasonable length of time and at reasonable cost. That is why an auditor's work is based on selected tests rather than an attempt to verify all transactions. Since evidence is examined on a test basis only, an audit provides only reasonable assurance, rather than absolute assurance, that financial statements are free of material misstatement. Thus, there is a risk that audited financial statements may contain undiscovered material errors or fraud. The existence of that risk is implicit in the phrase in the audit report, "in our opinion."

To the Township Board
Township of Frankenlust
Bay County, Michigan

In the audit process, we gain an understanding of the internal control structure of an entity for the purpose of assisting in determining the nature, timing, and extent of audit testing. Our understanding is obtained by inquiry of management, testing transactions, and observation and review of documents and records. The amount of work done is not sufficient to provide a basis for an opinion on the adequacy of the internal control structure.

SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies are described in Note 1 to the financial statements.

OTHER COMMUNICATIONS

Auditing standards call for us to inform you of other significant issues such as, but not limited to, 1) Accounting estimates that are particularly sensitive because of their significance to the financial statements or because of the possibility that future events affecting them may differ markedly from management's current judgments; 2) Significant audit adjustments that may not have been detected except through the auditing procedures we performed; 3) Disagreements with management regarding the scope of the audit or application of accounting principles; 4) Consultation with other accountants; 5) Major issues discussed with management prior to retention; and 6) Difficulties encountered in performing the audit.

We have no significant issues, regarding these matters, to report to you at this time. Audit adjustments were minimal, and are available to review.

GASB 34 IMPLEMENTATION

The Governmental Accounting Standards Board issued a new reporting model for governmental units which was required to be implemented for the fiscal year ended June 30, 2004. The implementation of this pronouncement for the Township of Frankenlust began with the year ended June 30, 2004. The daily operations and recording transactions did not change significantly, however, the Township is required to maintain additional records for the year end adjustments to the final presentation format.

COMMENTS AND RECOMMENDATION REGARDING INTERNAL CONTROLS/ COMPLIANCE/ EFFICIENCY

Our procedures disclosed the following conditions that we would like to bring to your attention:

SEGREGATION OF DUTIES

A separation of duties between persons who authorize transactions and persons who have control over the related assets does not always exist.

The least desirable accounting system is one in which an employee is responsible for executing the transaction and then recording the transaction from its origin to its ultimate posting in the General Ledger. This increases the likelihood that intentional or unintentional errors will go undetected. In most cases, adequate segregation of duties substantially increases control over errors without duplication of effort.

We understand that due to the size of needed staff, a proper segregation of duties may be impractical and the "cost to benefit" relationship may not justify the addition of accounting staff to accomplish the desired segregation.

These conditions were considered in determining the nature, timing and extent of the audit tests to be applied in our audit of the Township's financial statements and this communication of these matters does not affect our report on the Township's financial statements, dated June 30, 2004.

To the Township Board
Township of Frankenlust
Bay County, Michigan

SUMMARY

We welcome any questions you may have regarding the foregoing comments and we would be happy to discuss any of these or other questions that you might have at your convenience.

Sincerely,

Campbell, Kusterer & Co., P.C.

CAMPBELL, KUSTERER & CO., P.C.
Certified Public Accountants